

stelco

Annual Report 1985

AR26



"The responsibility my crew and I share is to get the most from our high-tech hardware and provide our customers with the best, most cost-effective steel we can make."

The year at a glance

Years ended December 31

Dollars in millions except as indicated*

Financial

		1985	1984	% Change Increase (Decrease)
Sales	\$	2,434.7	2,401.2	1
Income before extraordinary items	\$	85.2	48.3	77
Per cent of sales	%	3.5	2.0	
Net Income (Loss)	\$	77.6	(3.3)	
Income (Loss) per common share†				
Before extraordinary items	*\$	1.00	(.12)	
After extraordinary items	*\$	.77	(1.69)	
Dividends declared — preferred	\$	51.2	52.2	(2)
— common	\$	33.9	33.6	1
Per common share	*\$	1.00	1.00	
Common shareholders' equity	\$	980.6	981.5	
Per common share	*\$	28.82	29.11	
Capital expenditures	\$	136.3	32.4	320
Depreciation	\$	104.0	111.5	(7)

Operations

Materials and services bought and used‡	\$	1,371.6	1,343.3	2
Total employment costs	\$	828.7	870.9	(5)
Average number of employees		18,773	20,612	(9)
Raw steel produced — thousands of net tons		4,991	5,145	(3)
Steel shipments — thousands of net tons		4,023	4,004	—

Distribution of Total Revenue‡

Purchase of goods, supplies and services	%	54	53	
Wages, salaries and employee benefits	%	33	35	
Depreciation	%	4	5	
Interest on long-term debt	%	3	3	
Federal, provincial and municipal taxes				
— income taxes	%	1	—	
— other taxes	%	2	2	
Dividends	%	3	4	
Earnings reinvested in (withdrawn from) the business	%	—	(2)	
	%	100	100	

† After preferred dividends. (See Note 1 on page 21 for explanation of computation.)

‡ Excludes extraordinary items.

Pour obtenir un exemplaire de la
version française de ce rapport veuillez
écrire au secrétaire,
Stelco Inc.
C.P. 205, Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4

Stelco Inc.**NOTICE OF THE ANNUAL MEETING**

Notice is hereby given that the Annual Meeting of the Shareholders of Stelco Inc. will be held at The Great Hall, Hamilton Place, 50 Main Street West, in the City of Hamilton, Ontario, at the hour of 10:30 a.m., local time, on Monday, April 22, 1985 for the following purposes:

1. to receive the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1984;
2. to elect Directors;
3. to appoint Auditors; and
4. to transact such other business as may properly be brought before the meeting.

Proxies must be delivered to the Secretary of the Corporation not later than 11:00 a.m., local time, on Friday, April 19, 1985.

Dated at Toronto, this 22nd day of March, 1985.

By order of the Board of Directors

J. W. YOUNGER, Q.C.
Secretary

IMPORTANT

It is desirable that as many shares as possible be represented at the meeting. If you do not expect to attend, and would like your shares represented, please sign the enclosed proxy and return it as soon as possible in the envelope provided.

Stelco Inc.

Management Proxy Circular

REVOCABILITY OF PROXY

A proxy given pursuant to this solicitation may be revoked under subsection 142 (4) of the Canada Business Corporations Act by instrument in writing executed by the Shareholder or by his attorney authorized in writing and deposited either at the registered office of Stelco Inc. (hereinafter called "the Corporation") at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting or adjournment thereof.

PERSONS MAKING THE SOLICITATION

This solicitation is made by or on behalf of the management of the Corporation for use at the Annual Meeting of the Shareholders of the Corporation to be held on April 22, 1985 (hereinafter called "the Meeting") and at every adjournment thereof. Solicitation will be primarily by mail but proxies may also be solicited personally by regular employees of the Corporation at nominal cost. The cost of solicitation will be borne by the Corporation.

VOTING RIGHTS

On March 4, 1985 there were outstanding 33,143,196 Series A Convertible Common Shares and 578,553 Series B Convertible Common Shares (hereinafter referred to collectively as the "Common Shares"); 8,000,000 Series A Preferred Shares, 1,738,250 Series B Preferred Shares, 5,934,554 Series C Convertible Preferred Shares, 4,213,300 Series D Preferred Shares and 3,400,000 Series E Preferred Shares. The Common Shares together with any additional Common Shares which may be issued by April 22, 1985 are entitled to be voted at the Meeting. Each Shareholder is entitled to one vote for each Common Share registered in his name at the date of the Meeting. The holders of Series A Preferred Shares, Series B Preferred Shares, Series C Convertible Preferred Shares, Series D Preferred Shares and Series E Preferred Shares are not entitled to vote at the Meeting.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation provides Directors' and officers' liability insurance with a policy limit of \$5,000,000 per occurrence subject to a deductible of \$50,000 per occurrence. Under this insurance coverage the Corporation is reimbursed for payments made under corporate indemnity provisions on behalf of its Directors and

officers and individual Directors and officers are reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Corporation. Protection is provided to Directors and officers for acts, errors or omissions done or committed during the course of their duties as such. Excluded from coverage under the policy are illegal acts and those acts which result in personal profit. This coverage forms part of the Corporation's general third party liability risk insurance and while no part of the premium chargeable to the Corporation in connection with such coverage is specifically allocated to Directors' and officers' liability insurance, that part of the premium which is estimated to be referable to such Directors' and officers' liability insurance in the last completed financial year is \$12,000 all of which was paid by the Corporation.

PRINCIPAL HOLDERS OF SHARES

Neither the Directors nor officers of the Corporation know of any person or any person and his associates who beneficially owns, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to shares of the Corporation.

APPROVAL OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

A majority of the votes duly cast at the Annual Meeting in accordance with the by-laws of the Corporation is required for the approval of the Annual Report of the Directors to the Shareholders and the Financial Statements for the last completed financial year.

ELECTION OF DIRECTORS

The affairs of the Corporation are managed by a Board of 15 Directors who are elected annually at each Annual Meeting of Shareholders to hold office until the next Annual Meeting and until their successors shall have been duly elected. The following table sets out the name of each of the persons proposed to be nominated by management for election as a Director, his present principal occupation, all other major positions and offices with the Corporation and any significant affiliate thereof presently held by him, the period or periods of service as a Director of the Corporation and the approximate number of shares of the Corporation that he has advised are beneficially owned by him or over which he exercises control or direction as of March 4, 1985. Each of such persons now is a Director and has served continuously in that capacity since his first election.

Name	Present principal occupation	Director since	Approximate number of shares owned as of March 4, 1985		
			Series A Convertible Common	Series B Convertible Common	Preferred Shares (Series)
*J. D. Allan	President and Chief Executive Officer of the Corporation. Director and President of Stelco Coal Company (holding company), Director and President of Pikeville Coal Co. (holding company), Director and President of Stelco Holding Company (holding company)	1975	6,941		
*†Alex E. Barron	Vice-Chairman, Canadian General Investments Limited (closed end investment trust)	1979	1,000		
*A. Jean de Grandpré, O.C., Q.C.	Chairman of the Board and Chief Executive Officer, Bell Canada Enterprises Inc. (holding company)	1976	125		
*†Thomas M. Galt	Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada (life insurance)	1980	1,000		
*J. Peter Gordon, O.C.	Chairman of the Board of the Corporation, Director and Chairman of the Board of Stelco Coal Company (holding company), Director and Chairman of Stelco Holding Company (holding company)	1970	10,069		1,000(C)
J. Howard Macdonald	Chairman of the Board and Chief Executive Officer, Dome Petroleum Limited (oil and gas company), formerly Group Treasurer, Royal Dutch Shell Group	1984			
*A. J. MacIntosh, Q.C.	Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors	1972	750		
††William F. McLean	Corporate Director	1976	100	6,128	
J. Dean Muncaster	President and Chief Executive Officer, Canadian Tire Corporation, Limited (merchandise distribution)	1985	1,000		
†L. G. Rolland	Chairman of the Board and Chief Executive Officer, Rolland inc. (manufacturer and distributor of fine papers)	1963	100		
Henry G. Thode, C.C., Ph.D., F.R.S.	Professor Emeritus McMaster University	1969	1,000		1,000(E)
†Kenneth A. White, C.D.	Corporate Director	1974	300		
Marshall M. Williams	Chairman of the Board, President and Chief Executive Officer, TransAlta Utilities Corporation (electric utility)	1984	100		
L. R. Wilson	President and Chief Executive Officer, Redpath Industries Limited (sugar refiners)	1985	200		
*†William H. Young	Chairman, The Hamilton Group Limited (holding company)	1967	500		

*Member of the Executive Committee

†Member of the Audit Committee

††Member of the Compensation and Manpower Resources Committee

If any of the above nominees is for any reason unavailable to serve as a Director, proxies in favour of management will be voted for another nominee in their discretion unless the Shareholder has specified in the proxy that his shares are to be withheld from voting in the election of Directors.

DIRECTORS' AND OFFICERS' REMUNERATION

	Nature of remuneration earned					
	Directors' Fees	Salaries	Bonuses	Non-accountable expense allowance	Other	Total
REMUNERATION OF DIRECTORS AS SUCH (A) Number of Directors: 15 (B) Body Corporate incurring the expense: Stelco Inc.	\$152,159	Nil	Nil	Nil	Nil	\$ 152,159
REMUNERATION OF OFFICERS AS SUCH (A) Number of officers: 13 (B) Body Corporate incurring the expense: Stelco Inc.	Nil	\$2,026,301	Nil	Nil	Last completed financial year \$ 85,324 (1) Future years \$263,207 (2)	\$2,374,832
TOTALS	\$152,159	\$2,026,301	Nil	Nil	\$348,531	\$2,526,991

(1) Aggregate contributions to Stelco Share Participation Plan (described below) made by the Corporation during its last completed financial year for the benefit of officers of the Corporation.

(2) Aggregate of special payments, ascertainable at the date hereof and payable in future years, to which officers of the Corporation who are Participants in the Employee Stock Investment Plan (described below) are entitled subject to certain contingencies.

The estimated aggregate cost to the Corporation and its subsidiaries in the last completed financial year of all benefits proposed to be paid under any pension or retirement plan upon retirement at normal retirement age to Directors and officers of the Corporation and each affiliate of the Corporation as a group: \$258,110.

STELCO SHARE PARTICIPATION PLAN

Effective January 1, 1984 the Corporation established a Share Participation Plan for all eligible non-bargaining unit employees. The Plan is funded by the Corporation through quarterly contributions to a trustee. Accumulated monthly entitlements are invested quarterly by the trustee in Series A Convertible Common Shares purchased from the Corporation at the closing sale price on the Toronto Stock Exchange on the third last working day of each calendar quarter.

EMPLOYEE STOCK INVESTMENT PLAN

Under the Corporation's Employee Stock Investment Plan established in 1983, the Corporation is authorized to advance monies to a Trustee to be loaned interest free to specified key employees and applied in payment of the subscription price of Series A Convertible Common Shares from the Corporation to be purchased by the Trustee on behalf of such employees. The loans are secured by a pledge of the Shares to the Trustee and are normally repayable within 5 years of their inception. The Plan provides, on the occurrence of any of certain specified events, for special payments to a participant to discharge his outstanding loans.

In December, 1984, \$742,568 was advanced under the Plan for the purchase of an aggregate of 36,670 Series A Convertible Common Shares. Of such amounts, \$250,331 was loaned to and 12,362 Shares were purchased by officers of the Corporation. These Shares were authorized for issue at a price of \$20.25 per Share, the closing price on the Toronto Stock Exchange on December 7, 1984.

INDEBTEDNESS TO THE CORPORATION

Under the Employee Stock Investment Plan above referred to, indebtedness of officers to the Corporation during the year ended December 31, 1984 was, and at present is, as follows:

<i>Name of Officer</i>	<i>Largest Amount owing at any time since January 1, 1984</i>	<i>Amount Outstanding at March 4, 1985</i>
J. P. Gordon	\$ 99,618	\$ 99,057
J. D. Allan	104,567	103,929
G. W. R. Bowlby	64,701	64,342
R. E. Heneault	64,701	64,342
J. E. Hood	64,701	64,342
H. J. M. Watson	39,820	39,601
J. W. Younger	37,309	37,114
W. C. Ashcroft	24,147	24,019
G. Binnie	34,264	34,083
W. A. Darby	27,970	27,822
L. M. Killaly	25,041	24,908
P. D. Matthews	29,235	29,078
A. G. Northcott	26,109	25,967

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The management of the Corporation is not aware of any material interest of any Director or officer of the Corporation, any proposed management nominee for election as a Director of the Corporation or any associate or affiliate of any such person in any transaction since the beginning of the last completed financial year of the Corporation or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its affiliates within the meaning of Section 35 (w) of the Canada Business Corporations Act Regulations.

GENERAL

Shares represented by properly executed proxies in favour of the persons designated in the enclosed form will be voted for the election of Directors and the appointment of Auditors or withheld from voting if so indicated by the Shareholder on the form of proxy. Where the Shareholder executing a proxy specifies a choice with respect to any matter to be acted upon at the Meeting, other than the election of Directors and the reappointment of Thorne Riddell as Auditors, such shares will be voted in accordance with any specification so made. In the absence of such specification such shares will be voted for the approval of the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1984.

The enclosed proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and other matters which may properly come before the Meeting. At the date of this Circular, the management of the Corporation is not aware that any such amendments, variations or other matters are to be presented for action at the Meeting.

A proxy to be used at the Meeting must be deposited with the Secretary of the Corporation not later than 11:00 a.m., local time, on Friday, April 19, 1985.

The contents and the sending of this Circular have been approved by the Directors of the Corporation.

Toronto, Ontario
as of March 4, 1985.

J.W. Younger, Q.C.
Secretary

AR26

J. D. Allan
President and Chief Executive Officer
Stelco Inc.

stelco

Head Office
P.O. Box 205
Toronto Dominion Centre
Toronto, Ontario
M5K 1J4
(416) 362-2161

March 21, 1985

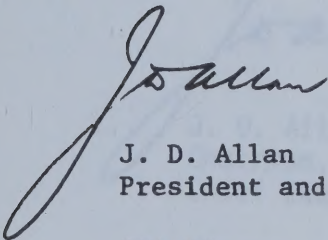
Dear Shareholder:

Your Board of Directors and I cordially invite you to attend the 75th Annual Meeting of Shareholders. It will be held in The Great Hall, Hamilton Place, 50 Main Street West, Hamilton, Ontario, Canada, on Monday, April 22, 1985, at 10:30 a.m.

During the course of the meeting, there will be time, as usual, for a discussion of each item on the agenda. There will also be opportunities for questions about the Corporation's affairs. Directors and Officers will be available to talk individually with Shareholders before and after the meeting.

I ask that you sign and return the enclosed proxy promptly, whether or not you expect to attend the meeting. This will help ensure maximum Shareholder representation at the meeting.

Sincerely,



J. D. Allan
President and Chief Executive Officer

JDA:BJ
Encl.

stelco
75
Canada's foremost
steelmaker
1910-1985

J. D. Allan
Chairman, President and
Chief Executive Officer
Stelco Inc.

Head Office
P.O. Box 205
Toronto Dominion Centre
Toronto, Ontario M5K 1J4
(416) 362-2161

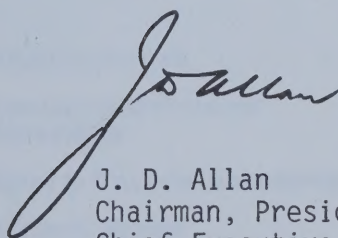
March 14, 1986

Dear Shareholder:

Your Board of Directors and I cordially invite you to attend the 76th Annual Meeting of Shareholders. It will be held in the Concert Hall, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada, on Monday, April 21, 1986, at 10:30 a.m.

We would appreciate your completing the enclosed proxy and returning it promptly, whether or not you expect to attend the meeting. Your participation, we feel, is important. Thank you in advance for your assistance.

Sincerely,



J. D. Allan
Chairman, President and
Chief Executive Officer

JDA/bc
Encl.

Synopsis of the Report

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1985: A Year of Progress: Cost reduction and slightly increased sales volume contributed to an improved earnings picture. Action was taken on those areas impeding Stelco's progress.

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Economic and Steel Environments: The automotive industry continued to set the pace of the Canadian economy. There was little change in the international steel scene. Imports continue to be of increasing concern in both the United States and Canada.

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Developments in 1985: Stelco's core business and strategic business units performed well. Hilton Works became the focus of capital spending, as installation of continuous casting equipment began. Quality and service improvement programs keyed on multi-discipline, cooperative efforts with customers. Plans to close certain non-competitive facilities were implemented. Employee productivity improved. Another early retirement program was announced. The Corporation marked its 75th Anniversary with special scholarship and community service award programs.

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Significant Marketplace Issues: Continued access to the U.S. market is essential to Canada's economic future. Stelco's lobbying efforts in Washington continued. The Corporation is seeking a monitoring system on imports. Canadian steelmakers worked with the USWA to produce the first Canadian Steel Trade Conference. Ontario legislation postponing aluminum's entry into the soft drink can market will help preserve jobs. Auto industry expansion in the form of major stamping plants is encouraging.

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Other 1985 Highlights: A Stelco/Armco Canada Ltd. joint venture will produce grinding media for Canadian mines. The Corporation's strategic planning includes a review of overall effectiveness and evolution of a long term plan. The senior executive organization was regrouped and streamlined. Mr. J.P. Gordon, Stelco Chairman since 1976, retired.

About the Corporation: Formed in 1910, Stelco Inc. is Canada's foremost steelmaker, supplying some 35 percent of the nation's steel. Raw steel produced at two integrated and two mini-mill plants is rolled into plate, sheet, bar and rod products. Three strategic business units make and market the Corporation's fastener and forging, wire and tubular products.

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Karen Koopman-Garrison,
Finishing Mill Operator, Lake Erie Works

"For me, it's exciting to learn about the process of rolling steel and to be part of it. The coilbox is the heart of the rolling operation here in the hot strip mill. It's just one example of the new technology Stelco is using to reduce cost and improve quality. But success really comes from people. The responsibility my crew and I share is to get the most from our high-tech hardware and provide our customers with the best, most cost-effective steel we can make. Technology and teamwork: that's what it's all about!"

1985: A Year of Progress

*A report from the Chairman,
President and Chief Executive
Officer.*

Stelco's comprehensive strategic plan yielded some positive results in 1985. Progress was made in productivity, cost reduction and quality and service.

Most significant was the achievement of a \$106 million pretax profit, exclusive of extraordinary items. This compares favourably with the \$47 million pretax profit posted in 1984. The factors contributing to Stelco's improved earnings include:

Significant manufacturing cost decreases: Higher steelmaking yields, lower inventory levels and elimination of non-competitive facilities and products led to an increase in profit margins.

Sales volume: Domestic demand was reasonably strong for most products. Stelco continued its policy of restraint in exporting to the U.S. The overall result was a slight increase in volume.

Modest increase in overall price per ton: The combination of improved product mix and slightly higher prices for some products resulted in a small increase in the sales value per ton shipped.

Several factors hindered the Corporation's earnings growth.

High cost of semi-finished steel, Hilton Works: Stelco's main Hamilton plant is the only one of the Corporation's four steelmaking operations using ingot practice rather than continuously casting directly into slabs or billets. **Action:** State of the art continuous casting equipment which is more cost and quality competitive is being installed and will be operational in 1987.

Iron ore costs: Stelco's overall ore costs when compared with world prices on the open market remained high in 1985. **Action:** The shutdown program for the Griffith Mine, Stelco's highest cost ore source, continued during the year. The mine will be closed permanently on April 1, 1986. In addition, the Corporation continued to pursue the regrouping of its sources of iron ore and the renegotiation of contractual arrangements for supply in order to provide greater cost effectiveness in operations.

Non-profitable facilities: In 1985 the Corporation recognized that it was still burdened with certain facilities whose costs were non-competitive and where product demand was less than satisfactory. **Action:** In May it was announced that Notre Dame Works and St. Henry Works in Montreal, and the continuous-weld pipe mill at McMaster Works in Contrecoeur, would shut down by the end of the year.



Portrait: Istvan Nyikos

Operating Statistics, 1983 - 1985

*Dollars expressed in millions,
except where indicated (*)*

	1985	1984	1983
Shipments (thousands of tons)	4,023	4,004	3,598
Sales	\$2,435	\$2,401	\$2,033
Sales price/ton*	\$ 605	\$ 600	\$ 565
Operating expense	\$2,187	\$2,209	\$1,938
Expense/ton*	\$ 544	\$ 552	\$ 539
Margin/ton*	\$ 61	\$ 48	\$ 26
Sales revenue and equity income less operating expense	\$ 249	\$ 204	\$ 94
Interest and depreciation	\$ 143	\$ 157	\$ 159
Pretax profit (loss)	\$ 106	\$ 47	\$ (65)

Plate mill products: Both volume and margins on Stelco's plate products were very low in 1985 due to continuing weak market demand, high levels of imports and severe domestic price competition.

Action: Efforts are being made to streamline all plate mill operations. Anti-dumping actions are being pursued to stop unfair trading of low-priced imports.

Economic and Steel Environments

In 1985 the Canadian economy in its third year of recovery after the recession of 1981-82 outperformed that of most industrialized countries. Real gross national product grew by 4.5 percent over 1984. Both the export and domestic sectors were strong, with the automotive industry continuing to lead the way.

There was relatively little change in the international steel scene. Apparent steel consumption in the western world last year was about the same as in 1984 at 480 million tons. Fierce competition at low prices continued to be the order of the day. Conditions in the U.S. remained volatile, and were characterized by low steel mill operating rates, severe price pressures and a penetration in excess of 25 percent of the domestic market by steel imports.

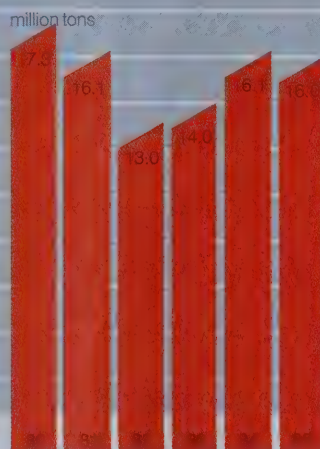
Canadian steel demand improved during 1985 with domestic consumption increasing between 4 and 5 percent. Imports of all steel products remained high at over 18 percent. Such a level is considerably above the trend in evidence between 1980 and 1983. It is estimated that 35 percent of Canadian steel shipments go to the North American automotive industry whose strength in 1985 continued to underpin steel mill operations. Demand for flat rolled products, particularly galvanized sheets, was strong throughout the year.

Some strength returned to the commercial and residential construction sectors in Canada as the year progressed, and record drilling activity took place in the Western oil and gas sector. Production of large diameter pipe was adversely affected because of the continuing weakness in construction of natural gas pipelines. Several other important steel markets, including energy mega-projects, farm machinery and ship and rail-car building did not keep pace with the general economic recovery.

Canada's steel product exports were inhibited in 1985 by competitive and currency exchange factors in overseas markets and by the general sensitivity in the United States to the import situation.

The accompanying charts provide historical and projected data for the Canadian and western world steel industries.

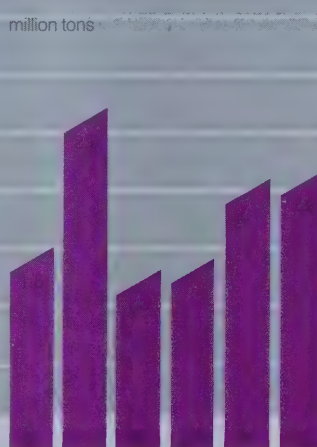
Canadian Raw Steel Production



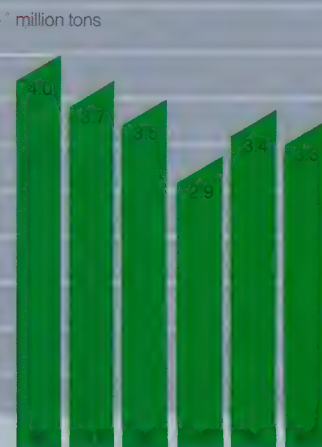
Canadian Domestic Shipments - All Steel Products



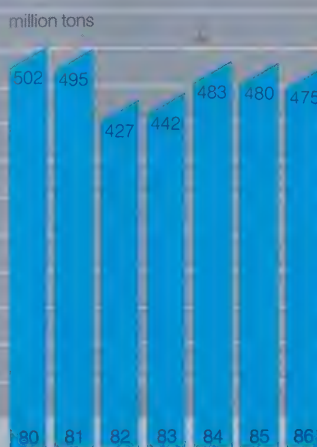
Canadian Imports - All Steel Products



Canadian Exports - All Steel Products



Western World Apparent Steel Consumption



Source: International Iron and Steel Institute
* Forecast

Developments in 1985

The year's facility highlights clearly depict Stelco's two distinct spheres of operation: the core business related to steelmaking and the rolling of basic steel products, and the separate strategic business units which make and sell finished products for specific markets.

Core Business

Steel production in 1985: 4.99 million tons.

The Corporation's four steelmaking facilities continued to make significant improvements in quality and output in 1985.



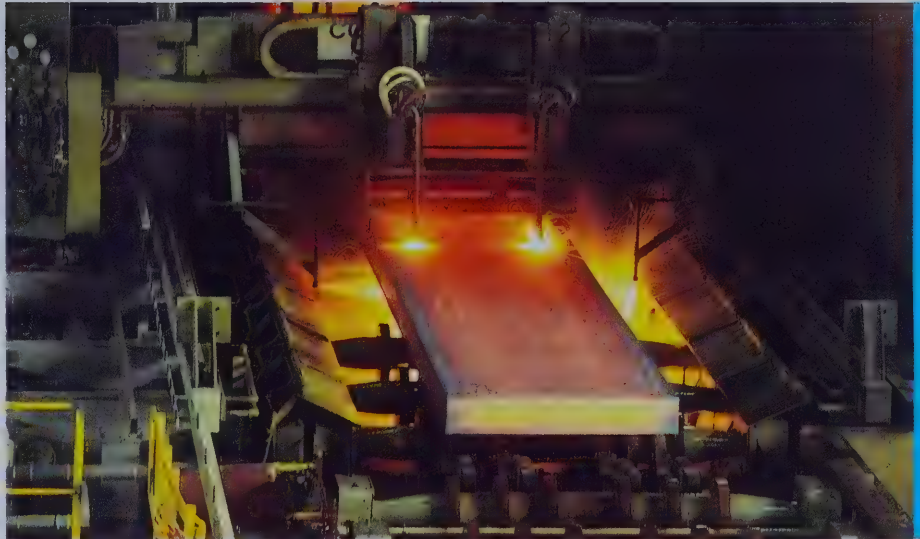
Hilton Works, Hamilton

- ☐ Basic Oxygen Furnace production 2.66 million tons, a shop record.
- ☐ Open Hearth shop remained closed.
- ☐ Source of significant cost savings, but further gains in cost reduction and quality improvement hampered by ingot mould practice.
- ☐ Focal point of Stelco's current capital spending program. All aspects of program on time and on budget.
- ☐ State of the art continuous casting equipment being installed. Contract with Mitsui & Co. (Canada) signed, entails design and supply of a slab caster and combination slab/bloom caster. New technology to be operational in 1987, will facilitate production of lower cost, higher quality semi-finished steel. Foundations poured in 1985, structural steelwork proceeding.
- ☐ Extensive revamp of No. 1 bar mill well advanced, to be complete in 1986.
- ☐ Optimization program for BOF includes changes in steelmaking practices and upgrading of computer controls.
- ☐ Gauge control equipment being installed in cold mill to achieve quality levels required for exposed auto body components.



Lake Erie Works, Nanticoke

- ☐ BOF steel production 1.69 million tons, a Lake Erie Works record.
- ☐ Output of continuous slab caster again exceeded initial design levels.
- ☐ Further gains in productivity and output of 2050 mm hot strip mill. Experiments with hot charging of slabs successful. Program under way to add fifth finishing stand and more horsepower to hot strip mill to expand its capabilities.



McMaster Works, Contrecoeur

- ☐ Electric arc furnace/continuous billet casting production 332 000 tons, a McMaster Works record.
- ☐ Sequence casting system installed in 1984 highly successful, working to full capability.



Edmonton Steel Works, Edmonton

- ☐ Electric arc furnace/continuous billet casting production 308 000 tons, an Edmonton Steel Works record.
- ☐ Refinements being made to increase output and enhance product quality.



Strategic Business Units

Consolidated sales in 1985: \$523.8 millions.

Comprising the secondary manufacturing elements of Stelco's business, these three companies are oriented to an entrepreneurial approach. They are essentially customers of the Corporation's core business in that they convert basic steel products into finished, manufactured goods.

In 1985, the many consolidation and rationalization steps taken to regroup and streamline these operations were virtually completed. Their headquarters and plant locations are outlined below.



Stelco Fastener and Forging Company

Headquarters

Burlington, Ontario

Plants

Swansea Works, Toronto, Ontario
Brantford Works, Brantford, Ontario
Distribution Centre, Burlington, Ontario
Gananoque Works, Gananoque, Ontario



Stelco Wire Products Company

Headquarters

Hamilton, Ontario

Plants

Parkdale Works, Hamilton, Ontario
Frost Works, Hamilton, Ontario
Dominion Works, Lachine, Quebec
Continuous Rod Processing Plant,
Burlington, Ontario



Stelco Pipe and Tube Company

Headquarters

Welland, Ontario

Plants

Page-Hersey Works, Welland, Ontario
Welland Tube Works, Welland, Ontario
Camrose Works, Camrose, Alberta

Quality and service

Today's marketplace is characterized by escalating demands for improved quality and service. Stelco continues to gear itself to meet these challenges.

In 1985, the gains achieved in product quality and customer service were gratifying. The significant steps taken to boost quality and service have brought together several Stelco disciplines, enabling the Corporation to be more responsive to the marketplace and better able to serve customers.



*Olga Delvecchio,
Statistical Resources Manager*

"Our customers want products with zero variability. Statistical process control (SPC) helps us pursue this kind of quality. Last year we trained over 1500 of our people in SPC techniques. We also invited many customers and suppliers to participate in our seminars and meetings. Everybody, from management to those on the shop floor, is getting involved, and the results are starting to show in our steel plants and the three business units as well. In addition, the automakers, who are well known as the most demanding steel users, have awarded us quality citations."

"Picture the flow of steel from the mills to customers as water flowing through a tap. That's what customer integrated planning (CIP) is all about. We tie our steelmaking and rolling schedules to our customers' product and inventory needs. Then we constantly adjust the 'tap' to create reliable, dependable scheduling and delivery programs. It's a streamlined system that makes it easy for customers to deal with us. The key is the close relationship among the customer's receiving department, our service reps here in the Stelco Tower, and the operators in the mill. The beauty of CIP is that it's working, and it's working well."



*Ted Zajac,
General Quality and
Service Coordination Manager*



*Fred Irwin,
General Metallurgy and
Quality Control Manager*

"Our work with the auto industry is a first rate example of our team's effectiveness. Our service metallurgists are working up front with customers to match steel grades with manufacturing processes. Enhanced testing techniques and computerized test reports provide accurate and timely verification of steel properties. Our operators have been visiting customers' plants to talk to their operators and see how our steel is formed and fastened. This technical presence, this close cooperation with customers on problems and solutions, is becoming more and more our way of doing business."

Research and Development

Applied research and development plays a crucial role in the pursuit of Stelco's cost reduction and quality improvement goals. Such efforts are vital to the future viability of all Canadian manufacturers and their international competitiveness.

The Corporation's researchers have found it increasingly beneficial to establish links with their academic counterparts and with their peers in government laboratories and other research bodies worldwide.

R&D at Stelco is an effective combination of in-house resources and external expertise. The Corporation is a founding member of the Canadian Steel Industry Research Association, and is the only Canadian steel company to fund chairs of metallurgy at two Canadian universities. The professors who occupy these chairs work with Stelco on various

At Hilton Works, a hinged-lid ladle practice developed as part of the BOF optimization program is now providing better quality, improved temperature control and decreased operating costs. At Lake Erie Works, new types of moulds and modified operating practices are being evaluated on the continuous slab caster, the objective being to produce better quality slabs that can be charged directly to the hot strip mill with little or no conditioning.

Work is continuing on a program to provide improved coatings for sheet products destined for automotive, container, prefinished steel and other critical end uses. Superior surface quality, formability and product consistency are the main aims. Studies are also in progress to improve the spot weldability of sheet products, including coated sheets, for the auto industry.

Further rationalization of facilities

In May Stelco announced that Notre Dame and St. Henry Works in Montreal and the continuousweld pipe mill in Contrecoeur would be closed by the end of 1985.

Notre Dame Works, a wire and fastener manufacturing facility, was one of the original plants involved in the formation of Stelco in 1910. It has been affected adversely by a rapidly changing steel market environment to the point where many of its products are no longer cost competitive. Sales have declined by as much as 50 percent in recent years. This is largely the result of a gradual decrease in demand for products related to construction and heavy manufacturing.

The decision to close the McMaster Works pipe mill and St. Henry Works was brought about by poor demand for continuousweld pipe resulting from the depressed capital construction market. Strong competition from imports and substitute products such as plastic were also factors. Both this facility and the continuousweld pipe mill at Page-Hersey Works in Welland have been operating at low levels of production. Continuation of both facilities could not be justified in the current economic environment. Since Welland is the centre of Stelco's pipe-making operations and expertise as well as being closer to raw materials and markets, it was decided to consolidate continuousweld pipemaking and finishing at that location.

These measures form part of an overall recovery strategy calling for the modernization of certain facilities and the rationalization of others that are no longer profitable. This has already involved the closure of Canada Works in Hamilton, a fabricating facility in Regina and a fence-erection operation in Montreal, as well as the elimination of a number of product lines at various plants throughout the Corporation and the announced closure of the Griffith Mine in northern Ontario.

For those employees displaced as a result of facility closures, the Corporation has created and implemented employee assistance programs providing for separation allowances and improved pension benefits.

"Our efforts here are directed toward improving existing products and coming up with new ones. We're busy developing better coated sheet steels, primarily for the automotive, construction and container markets. Examples include the introduction of new pre-finished steels, the continuing search for improved corrosion resistance, the process refinements needed to make cladding materials more formable, or enhance the surface quality of our zinc coated steels, or roll precision-gauge tin plate for food and beverage cans. The old 'garden variety' steels are history; the sophisticated materials we're working on today represent Stelco's high technology response to the exacting and stringent demands of today's marketplace."



Dan Sakai,
Associate – Research and Development

research projects and assist with the continuing education of the Corporation's research, technical and operating personnel. Stelco also works cooperatively with other technical associations and steel companies.

Again in 1985, Stelco's research and development emphasis was directed towards improving quality and productivity, reducing processing costs and increasing steelmaking yields.

Sales of the Corporation's technical expertise in 1985 included the granting of two more licenses to build and operate the Stelco coilbox. The total granted to date stands at 14. Developed by Stelco, the coilbox is a state of the art device which cuts the cost and improves the quality of hot rolled sheets. One of these units will be used by a steelmaker in Japan.

Employee relations

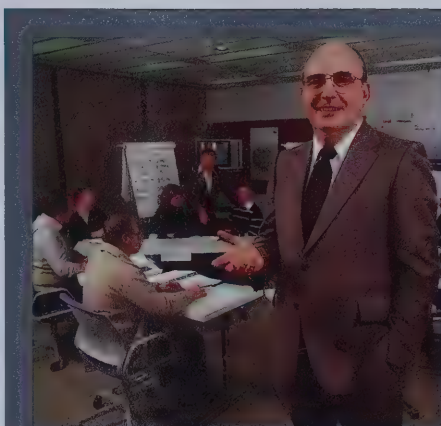
Stelco's average employee complement was 18,773 in 1985, compared with 20,612 in 1984 and 19,519 in 1983. Salaried personnel numbered 4482 at the end of the year, compared with 4708 in 1984, 4865 in 1983 and 5241 in 1982. Shipped tons per employee, at 214, is higher than in 1984.

Early retirement programs

As in recent years, many employees took advantage of early retirement programs offered by the Corporation. In 1985, some 146 bargaining unit and 52 salaried personnel availed themselves of the supplementary early retirement benefits offered to employees affected by plant closures.

Another 109 salaried personnel retired early under the terms of the Corporation's selective early retirement program.

In December, Stelco and the United Steelworkers of America announced a new workforce adjustment program. Up to 750 bargaining unit employees are eligible to receive improved pension benefits, if they retire between December 1, 1985 and March 31, 1986. The program has the potential for enhancing job security for other bargaining unit employees who are not eligible for retirement. It also demonstrates the ability of both parties to act upon important issues during the term of the existing collective agreements.



Jack Walker,
Training Coordinator

"As someone with a mill background, I know what can happen to product quality and output when all members of the team feel good about themselves and take pride in their work. That's why it's so important for Stelco's leadership, from first line supervisors to senior managers, to add consistent interactive 'people' skills to their technical and administrative abilities. Interaction Management does just that. It helps our supervisors understand their employees' diverse points of view, and it helps our employees develop self-motivation and problem solving techniques."

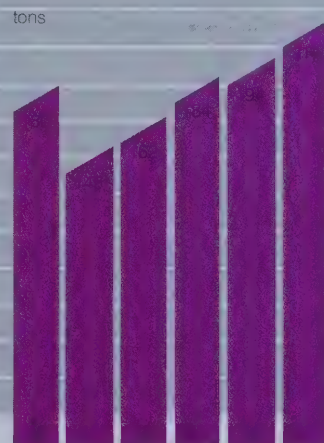
Union relations

Regular information sessions were held with officials representing the USWA and other Union locals. Chairmanship of the USWA meetings alternates between Stelco and the Union. The sessions provide opportunities for exchanges of information vital to the understanding of issues and concerns required by both parties. The majority of existing three-year collective agreements expire on July 31, 1987.

Employment Costs

Dollars in thousands	1985	1984
Wages and Salaries		
For time worked	\$ 613,952	\$ 645,604
For vacations and statutory holidays not worked	63,389	65,955
	\$ 677,341	\$ 711,559
Supplementary Employment Benefits		
Pension costs	\$ 54,401	\$ 61,733
Group insurance plans and other benefits	61,806	62,190
Unemployment insurance and worker's compensation	35,128*	35,456
	\$ 151,335	\$ 159,379
Total Employment Costs	\$ 828,676	\$ 870,938
Average Number of Employees	18,773	20,612
Employee Benefits		
Number of pensioners at year end	7,913	7,433
Pensions paid during the year	\$ 58,309	\$ 50,958
Total life insurance at year end	\$ 824,228	\$ 848,276
Total death benefits paid during the year	\$ 4,272	\$ 3,993

Shipped tons per employee

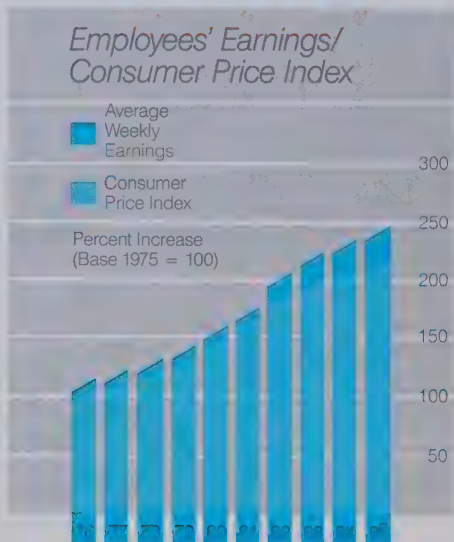


Significant Marketplace Issues

Training

Accelerated and extensive training is a key part of Stelco's plan to provide its employees with the skills and tools they need to get the most from current facilities and new technologies.

In addition to the employees who received in-depth training in statistical process control, some 1500 supervisory personnel attended sessions in Interaction Management, a program designed to improve interpersonal and supervisory skills. Many of these sessions were held in a newly established training centre in the Stelco Tower in Hamilton.



Steel trade

Bilateral trade negotiations: The most pressing national economic issue currently confronting Canada is the future of its trading relationship with the United States. This relationship is truly a unique one which over the years has led to an increasing degree of economic interdependence and market integration, so much so that both countries are now each other's best customer. This two-way trade accounts for employment of over four million persons split relatively equally on both sides of the border.

Notwithstanding this extraordinary close economic relationship, Canada has certainly not been immune from the upsurge in protectionist sentiment that is now occurring in the United States. The reality that Canada is the only major industrialized trading nation that does not have access through a formal trading arrangement to a market in excess of one hundred million people and the fact that the United States is the ultimate repository of just over three quarters of Canada's total exports demonstrate very clearly just how essential continued access to the U.S. market is to Canada's economic future.

The trade discussions commencing between Canada and the United States provide an excellent opportunity to define still further our unique economic relationship in some form of enhanced bilateral trade agreement. It is hoped that what will evolve from these discussions is a process that will allow both countries' economies to adjust to the new realities of international trade, but at the same time will increase two-way trade to bring about greater employment on both sides of the border. Canadian steel, if given the chance through fewer barriers, can assist in strengthening the North American manufacturing base.

The recent experience of Canada's steel industry clearly indicates the need to have bilateral mechanisms in place to prevent unilateral actions. Such actions might be based on limited understanding, and could only lead in turn to retaliatory measures that are not in the interests of either country.

Steel exports to the United States:

Canada has not been subjected to the voluntary steel restraint agreements that have been put into effect by the United States. However, the steel industry in that country continues to press for Canadian steel imports to be limited in the same way as imports from the EEC, Japan, South Korea and many other countries have been. Some foreign producers have established their positions in the U.S. marketplace through a great deal of unfair trading. In 1985 steel import penetration in the U.S. was well in excess of the goal to limit such imports to 20.2 percent of U.S. consumption.

Accordingly, the lobbying process of the Canadian steel industry continued throughout the year including numerous meetings with members of the U.S. Congress, some of whom have visited Stelco's Lake Erie Works, and with officials of the U.S. Administration. We have been able to point out that the Canadian steel industry has not taken advantage of the Canadian exemption. In fact, from January through November of 1985, Canadian participation in the U.S. market was at 3.0 percent of U.S. consumption as compared with 3.2 percent in 1984, or a reduction of some 300 000 tons.

Steel imports into Canada: Steel imports were slightly higher than in 1984. Canada is now the only open market for steel in the world. Because of this Stelco is active, along with other members of the industry, in seeking a monitoring system on imports.

Anti-dumping actions initiated by Stelco in 1985 on barbed wire against Poland, Argentina, Brazil and South Korea, and against East Germany on carbon steel plate, were successful. Other actions on welded, seamless and standard pipe are being considered.

Canadian Steel Trade Conference:

Stelco was instrumental in setting up the first Canadian Steel Trade Conference which took place in May 1985. The Conference brought steel company and union representatives together to define and study joint interests. Subjects included Canadian steel exports and imports, technological changes and steel markets. This valuable process of company/union cooperation is continuing and a non-profit foundation has been set up to conduct further analysis and research with financial assistance from the federal government. A second conference is planned for May, 1986.

Stelco's tinning lines were kept busy in 1985 producing D&I (drawn and ironed) tinplate, an exceptionally close tolerance material required for the new two-piece food and beverage containers. The Ontario Government's decision to delay the entry of aluminum into this important market will help protect steel industry jobs.



Steel for beverage cans

In September, the Ontario Government postponed the introduction of aluminum cans into the soft drink market until September 1987. The delay provides the canmakers with the time needed to complete the transition from three-piece cans to more competitive two-piece containers made from Stelco's drawn and ironed (D&I) steel. This will help protect steel's market position and will preserve jobs in Hamilton and at Lake Erie Works.

The new regulations also provide a strong incentive for the continuing development of an effective curbside collection and recycling industry in the province. Stelco is working closely with all concerned to support the Government's solid waste reduction program.

Steel for auto bodies

The expansion taking place in Canada's automotive industry is very encouraging to Stelco. A key component of this expansion is the installation of major stamping plants to produce exposed body panels for the automakers' assembly operations. This will be a first for Canada, as previously all such parts were imported. Stelco has been actively involved in supporting the establishment of such facilities in Canada, and expects to be a major supplier of the high quality steel they will require.



In September, Stelco welcomed members of the U.S. Congress' Steel Caucus and their Canadian counterparts to Lake Erie Works. Such visits lead to exchanges of information between the Canadian steel industry and those who are concerned with the increase of imported steel in the United States.

Stelco marked the occasion of its 75th anniversary in several meaningful ways. Special editions of the Corporation's regular publications were distributed. A video program on Stelco's history, current status and future plans was produced in-house and shown on public television stations in Hamilton and Edmonton.

Two important and continuing programs were introduced in 1985 as part of the 75th anniversary celebrations. The first, a scholarship program for the children of Stelco employees, provided cash awards to 124 young people in the form of entrance scholarships at the university and community college level. The second, a community service awards program, recognized the outstanding efforts of Stelco people across the country who are involved in cultural, charitable, religious or recreational organizations.

New joint venture

In May, Stelco and Armco Canada Ltd. established a joint venture, Moly-Cop Canada, to produce and market grinding media for the Canadian mining industry. An \$11 million plant is being constructed in Kamloops, British Columbia.

The plant will use the latest technology which has been developed by Armco, a world leader in the production of grinding media. Steel for the manufacturing operation will come from Stelco's Edmonton Steel Works plant. To be operational in September of 1986, the facility will be the largest of its type in Canada, and the second largest in the world.

Strategic planning

Stelco's planning activities are proceeding on two fronts. In the near term the efforts are being concentrated on the existing businesses to ensure they are capable of meeting the demands of today's marketplace. The effectiveness of all Stelco activities and departments is being examined with a view to eliminating those functions that no longer have relevance.

For the longer term, an analysis is being made of the challenges and opportunities that will face the Corporation in the 1990s. The results will be used to develop a strategic direction for the Corporation that can bring about solid growth during that period and into the next century.

Executive changes

In 1985 Mr. J.P. Gordon, Mr. H.J.M. Watson and Mr. K. Coles retired from active service with Stelco. As a result the senior executive organization structure was regrouped, taking into account the need for some streamlining, the best utilization of skills and development of a strong and effective team for the longer term.

The organization chart which follows highlights the new structure and records the title changes where appropriate.

Mr. J.P. Gordon's active career with Stelco spanned almost 40 years, culminating in his appointment to President in 1971, Chief Executive Officer in 1973 and Chairman of the Board in 1976. Under his strong and vital leadership, the Corporation successfully constructed and brought into production a new greenfield steel plant on the shores of Lake Erie which has proved to be so essential for Stelco's long-term future. Mr. Gordon continues as a Director of the Corporation.

Mr. H.J.M. Watson retired as Vice-President, Finance. During his tenure of this office he played a key role in expanding the financial base of the Corporation to meet the heavy capital spending programs. Throughout his career of 37 years with Stelco, Mr. Watson was instrumental in systems development and in expanding computerization within the Corporation.

Mr. Ken Coles served the Corporation for over 36 years in a number of capacities in manufacturing and industrial relations, becoming a Vice-President in 1977.

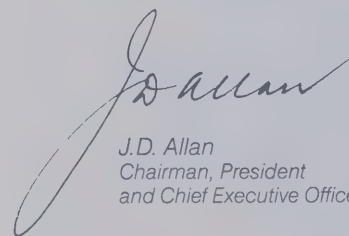
Directors

In keeping with the retirement rules for Directors of the Corporation, Dr. Harry G. Thode retired from the Board on December 31, 1985.

Dr. Thode was elected a Director of Stelco Inc. on February 17, 1969 while he was serving as President of McMaster University in Hamilton. Dr. Thode is recognized as having made distinguished contributions to the study of nuclear chemistry and the application of physics and chemistry to geology. As the first member of the academic community to serve as a Director of Stelco, Dr. Thode brought a unique perspective to the affairs of the Corporation. His contribution and service during a significant period of the Corporation's history is sincerely appreciated.

To fill the vacancy created by Dr. Thode's retirement, Dr. Fraser Mustard was elected a Director.

The dedicated efforts of employees and the support of customers, suppliers and shareholders are very much appreciated by the Directors and Officers.



J.D. Allan
Chairman, President
and Chief Executive Officer

Corporate Organization



J.D. Allan
Chairman, President
and Chief Executive
Officer



The following discussion of operating results and financial position of the Corporation should be read in conjunction with the consolidated financial statements and related notes. A ten year statistical summary of key operating and financial data is given on page 34 of this report.

Sales

Sales revenue for 1985 was \$2,434.7 million, an increase of 1.4% over 1984 and a new high for the Corporation.

The revenue increase is the result of slightly higher steel shipments, very modest selling price increases and some benefit from an improved mix of products sold.

Net income

Consolidated income before extraordinary items was \$85.2 million in 1985 compared to \$48.3 million in 1984. Earnings per common share before extraordinary items and after preferred dividends were \$1.00 in 1985 versus a loss of \$.12 per share in 1984.

A factor in the improvement in consolidated earnings was the before tax gain of \$8.4 million from Stelco's sale of its portfolio investment in Shaw Industries Ltd. described in Note 7.

After extraordinary items associated with the shutdown of facilities described in Note 3 the consolidated net income for 1985 amounted to \$77.6 million compared to a net loss of \$3.3 million in 1984. This resulted in earnings per common share after deducting preferred dividends of a profit of \$.77 in 1985 versus a loss of \$1.69 in 1984.

Dividends

The quarterly dividend rate of 25¢ per common share was maintained throughout 1985 and 1984. Thus dividends declared on the Series A and B Convertible Common Shares amounted to \$33.9 million in 1985 and \$33.6 million in 1984. The increased amount reflects the additional shares issued at various times under the Employee Stock Investment Plan and the Share Participation Plan.

Amendments to the Income Tax Act announced during 1985 require that stock dividends both declared and paid after May 23, 1985 be treated by shareholders as cash dividends for income tax purposes.

Preferred share dividends declared in 1985 on all series amounted to \$51.2 million, down from the \$52.2 million declared in 1984. This decline is due to the general reduction in prime interest rates on which the Series A dividend is based and the reduced number of Series B and Series D shares outstanding.

Capital Structure

The issues of capital stock during the year resulted primarily from the Employee Stock Investment Plan and the Stelco Share Participation Plan. Under the former plan, described in Note 13 to the Consolidated Financial Statements, 46,108 Series A Convertible Common Shares were issued in December 1985 for a total consideration of \$1,083,538. Under the latter plan, described in Note 14, a total of 245,531 Series A Convertible Common Shares were issued during the year for a total consideration of \$5,092,180.

Essentially other changes have been minimal and reflect the purchases and cancellation of preferred shares in accordance with the terms of the various issues and the declaration of stock dividends applicable to the Series B Convertible Common Shares. Details of the various issues and changes in the number of shares outstanding are provided in Note 12 to the Consolidated Financial Statements.

Capital Spending

Capital spending for the year increased to \$136.3 million from \$32.4 million spent in 1984. The increase is primarily attributable to the program to modernize Hilton Works which was approved in principle in 1984. The 1985 spending reflects expenditures of \$132.1 million for manufacturing and mining facilities and \$4.2 million for long-term intercorporate investments discussed below.

With the exception of the Hilton Works modernization program and the addition of a fifth rolling stand at Lake Erie Hot Strip Mill, capital spending continued to be constrained and mainly involved non-growth items such as environmental control projects, mobile equipment replacements and projects involving cost savings and quality improvements.

Intercorporate Investments

During the year, long-term intercorporate investments decreased by \$10.5 million to \$55.0 million. The decrease is primarily due to a reduction in the carrying value of investments caused by the translation of foreign debt at year end rates of exchange and the sale of the Corporation's portfolio investment in Shaw Industries Ltd. Partially offsetting this decrease was the inclusion of the 50% interest in Stow International B.V. previously consolidated in the financial statements. The balance of the change results from minor additional investments and the Corporation's share of dividends exceeding earnings. Note 7 to the Consolidated Financial Statements provides additional data on intercorporate investments.

Cash Flow

The Consolidated Statement of Cash Flow on page 20 gives the details of the cash flow which are commented on below. Recognizing their liquid nature, short-term investments are treated as cash in this statement.

Cash from Operations: Operations provided net cash of \$154.5 million. Cash from the improvement in income before extraordinary items was partially offset by the higher level of expenditures for fixed assets and long-term intercorporate investments. Changes in elements of working capital also were a source of cash. Details of these changes are given in the table on the bottom of page 20 of this report. The principal changes are:

- ☐ Accounts receivable increased \$21.8 million mainly because of the higher level of sales in the last month of 1985.
- ☐ Inventories decreased \$10.7 million as a result of planned inventory control and the liquidation of inventories made redundant by the closure of some finishing works.
- ☐ Accounts payable increased \$63.0 million reflecting a generally higher level of business activity, particularly capital spending.
- ☐ Income and other taxes increased slightly in 1985. Note 4 on page 23 gives the Components of Consolidated Income Taxes.

Cash from Financing Activities: Net proceeds from the issue of Notes payable described in Note 11 on page 26 resulted in a cash inflow of \$43.5 million. Proceeds from the issue of common shares previously described under the heading Capital Structure added a further inflow of \$6.2 million. These inflows were offset to a degree by a reduction of \$38.9 million of long-term debt and \$2.5 million purchases of preferred shares also described under the heading Capital Structure.

Other Uses of Cash: Other uses of cash totalled \$87.7 million primarily for cash dividend payments amounting to \$85.3 million together with payments of \$2.4 million related to extraordinary items described in Note 3.

The foregoing has resulted in a net increase during the year of \$75.1 million, bringing the year end balance of cash and short-term investments to \$212.5 million.

Cash Requirements

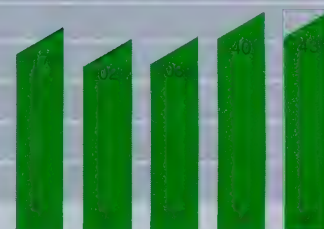
The amount of cash and short-term investments are in excess of current requirements for normal business activity. Funds have been accumulated in advance to provide, in part, for capital expenditures associated with the Hilton Works modernization program and in anticipation of a retraction of Series A Preferred Shares on May 1, 1987.

Inflation

Inflation in 1985 was approximately 4%, little changed from the inflation rate experienced in 1984. However, because inflation's impact is cumulative, double digit inflation of past years continues to distort historical cost based financial statements. For example, depreciation based on the reproduction cost of the Corporation's fixed assets (calculated using Statistics Canada's Implicit Price Indices for Non-Residential Construction and Machinery and Equipment) is estimated to exceed the reported depreciation based on historical cost by \$90 million. In addition, Stelco's investment in inventories is estimated to have increased \$15 million due to inflation in 1985. While other factors could be considered, it is management's view that the above two amounts give a simple, yet reasonable, indication of the impact of the effect of changing prices on Stelco's operation.

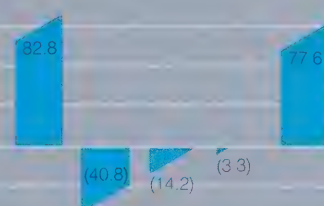
Sales Revenue

millions of dollars



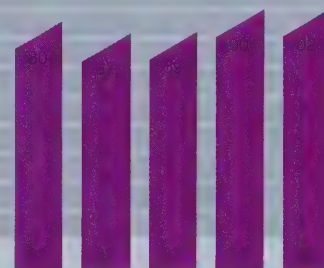
Net Income (loss)

millions of dollars



Steel Shipments

thousands of net tons



Consolidated Statement of Income and Retained Earnings

Stelco Inc.

Years ended December 31
(Thousands of Dollars)

		1985	1984
Revenue	Sales	\$ 2,434,656	\$ 2,401,180
	Equity income from corporate joint ventures and partnerships	790	11,808
	Income from short-term investments	17,673	13,671
	Gain on sale of portfolio investment (Note 7)	8,372	—
		2,461,491	2,426,659
Expense	Cost of sales, exclusive of the following items	2,048,952	2,072,351
	Administrative and selling	129,548	128,653
	Research and development	8,382	8,377
	Depreciation	104,031	111,483
	Interest on long-term debt	64,020	58,907
	Other interest	272	259
	Income taxes (Note 4) — current	10,729	14,976
	— deferred	10,331	(16,627)
		2,376,265	2,378,379
Income before extraordinary items		85,226	48,280
	Extraordinary items net of taxes (Note 3)	(7,577)	(51,560)
Net Income (Loss)		77,649	(3,280)
Retained Earnings	Balance at beginning of year	590,397	681,648
	Dividends (Note 12)	(85,083)	(85,810)
	Expenses related to issue of capital stock (after deducting income taxes: 1984 — \$1,878)	—	(2,161)
	Balance at end of year	\$ 582,963	\$ 590,397
Income (Loss) per common share (Note 1)	Before extraordinary items	\$ 1.00	\$ (.12)
	— fully diluted	N/A	N/A
	After extraordinary items	\$.77	\$ (1.69)
	— fully diluted	N/A	N/A

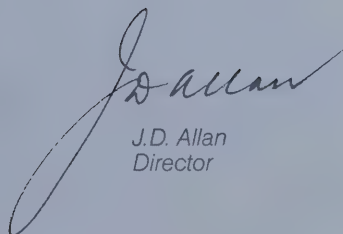
Consolidated Statement of Financial Position

Stelco Inc.

At December 31
(Thousands of Dollars)

		1985	1984
Current Assets			
Cash	\$	7,604	\$ 6,130
Short-term investments, at cost (approximates market value)		204,943	131,342
Accounts receivable		332,282	310,440
Inventories (Note 5)		738,045	748,768
Prepaid expenses		12,418	4,680
		1,295,292	1,201,360
Current Liabilities			
Accounts payable and accrued		354,199	257,013
Income and other taxes		46,702	43,708
Cash dividends payable		21,046	21,646
Long-term debt due within one year (Note 11)		24,900	25,174
		446,847	347,541
Working Capital		848,445	853,819
Other Assets			
Fixed assets (Note 6)		1,492,535	1,484,350
Long-term intercorporate investments (Note 7)		54,983	65,479
Deferred foreign exchange losses		51,215	45,966
Unamortized long-term debt issue expense		10,480	5,785
		1,609,213	1,601,580
Total Investment		2,457,658	2,455,399
Other Liabilities			
Provision for discontinuance of operations (Note 3)		1,750	25,132
Provision for blast furnace relines — beyond one year		83,898	60,760
Long-term debt (Note 11)		572,156	555,200
Deferred income taxes		239,537	250,626
		897,341	891,718
Shareholders' Equity		\$ 1,560,317	\$ 1,563,681
Derived from:			
Capital Stock (Note 12)			
Preferred shares	\$	579,672	\$ 582,152
Common shares and warrants		397,614	390,990
Stock dividend to be issued		68	142
Retained Earnings		582,963	590,397
		\$ 1,560,317	\$ 1,563,681

On behalf of the Board:



J.D. Allan
Director

Consolidated Statement of Cash Flow

Stelco Inc.

Years ended December 31
(Thousands of Dollars)

		1985	1984
Cash from (used by) Operations	Income before extraordinary items	\$ 85,226	\$ 48,280
	Remitted (Unremitted) equity income	7,147	(9,062)
	Depreciation	104,031	111,483
	Increase in provision for blast furnace relines	23,138	26,142
	Deferred income taxes	10,331	(16,627)
	Sale of tax rights (Note 8)	2,777	5,697
	Expenditures for fixed assets — net	(132,100)	(34,824)
	Long-term intercorporate investments — net	(4,153)	2,386
	Changes in operating elements of working capital (see below)	47,157	(134,645)
	Other — net	10,984	10,621
		154,538	9,451
Cash from (used by) Financing Activities	Net proceeds from issue of notes payable (Note 11)	43,495	—
	Proceeds from sale and leaseback of fixed assets (Note 9(c))	—	50,000
	Net proceeds from issue of common shares and warrants (Note 12)	6,176	87,174
	Reduction of long-term debt — net	(38,947)	(23,588)
	Purchase of preferred shares (Note 12)	(2,479)	(1,539)
		8,245	112,047
Other sources (uses) of Cash	Cash dividends paid	(85,303)	(83,853)
	Payments related to extraordinary items	(2,405)	(918)
		(87,708)	(84,771)
Net Increase in Cash		75,075	36,727
Cash and Short Term Investments	Balance at beginning of year	137,472	100,745
	Balance at end of year	\$ 212,547	\$ 137,472
Changes in Operating Elements of Working Capital Providing (Utilizing) Cash	Accounts receivable	\$ (21,842)	\$ (24,005)
	Inventories	10,723	(78,136)
	Prepaid expenses	(7,738)	(1,731)
	Accounts payable (excluding extraordinary items (Note 3))	63,020	(38,263)
	Income and other taxes	2,994	7,490
		\$ 47,157	\$ (134,645)

Notes to Consolidated Financial Statements

December 31, 1985

1 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Stelco Inc. and its subsidiaries, all of which are wholly owned. Also included are the Corporation's pro-rata portions of the assets, liabilities and expenses of its unincorporated joint ventures. (See Note 7, also see page 33 for listing of Subsidiary Companies and Unincorporated Joint Ventures.)

Corporate joint ventures and partnerships, in all of which the Corporation has an interest of 50% or less, are accounted for by the equity method. (See Note 7, also see page 33 for listing of Corporate Joint Ventures and Partnerships.)

Foreign Currencies

Monetary assets and liabilities originating in foreign currencies are translated at year end exchange rates. All other assets and liabilities originating in foreign currencies are translated at historic rates prevailing when the assets were acquired or the liabilities incurred. Income and expense items, other than those related to assets and liabilities translated at historic rates, are translated at average rates prevailing during the year.

Unrealized gains or losses resulting from the translation of long-term debt at year end exchange rates are deferred and amortized over the remaining life of the debt. All other gains or losses resulting from foreign currency translations are reflected in the Consolidated Statement of Income.

Inventories

Inventories are valued at the lowest of cost, replacement cost and net realizable value. Physical quantities are normally confirmed once a year by count and for certain raw materials by aerial survey.

Fixed Assets and Depreciation

Fixed assets are recorded at historical cost less investment tax credits and include construction in progress. Depreciation is provided using the straight-line method applied to the cost of the assets at rates based on their estimated useful life and beginning from the point when production commences. Construction in progress on which no depreciation has been recorded amounted to \$167 million (\$70 million at December 31, 1984). The following annual depreciation rates are in effect:

Buildings	2 1/2 to 5%
Equipment	6 to 7 1/2%
Automotive and mobile equipment	10 to 20%
Raw material plants and properties	4 1/2 to 5%

Research and Development

Expenditures for research and development are expensed as incurred.

Interest

The interest cost of financing both working capital and capital expenditures is expensed as incurred.

Income Taxes

The Corporation provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the financial statements. Deferred income tax provisions result from timing differences in the recognition of income and expense for income tax and financial statement purposes. Investment tax credits are recorded using the cost reduction approach when there is reasonable assurance that such credits will ultimately be realized. Current and future income is affected to the extent that the cost of certain assets for depreciation purposes has been reduced by the investment tax credit resulting from the acquisition of such assets.

2 Segmented Information

3 Extraordinary Items

Income Per Common Share

Income (loss) per common share both before and after extraordinary items are computed on the basis of their respective income (loss) for the year, less prescribed dividends on the preferred shares, divided by the weighted average of total Series A and Series B Convertible Common Shares outstanding during the year. Since the effect is antidilutive in 1985 and 1984, fully diluted income per common share both before and after extraordinary items has not been shown.

The Corporation operates exclusively as a vertically integrated producer of a wide range of steel products which is its only line of business and dominant segment. Export sales of domestic production to foreign countries amounted to \$501 million in 1985 (\$522 million in 1984).

During 1985, the Corporation closed Notre Dame and St. Henry Works in Montreal and the continuousweld pipe mill at Contrecoeur. The properties at Notre Dame and St. Henry have been sold although the Corporation's rock bolt operation is continuing at the Notre Dame location under a short-term lease.

The 1984 amounts relate to shutdown or ceased development at the Griffith Mine, Stelco Fabricators Ltd., Durastal Installations Limitée, Canada Works and the Corporation's interest in the Elk River Coal Project.

The net costs associated with the above are estimated to be:

	1985 (in thousands)	1984 (in thousands)
Write Down of Facilities to Estimated Recoverable Values		
Write down of facilities in the year	\$ 600	\$ 6,751
Provision for write down of fixed assets (Note 6)	—	47,163
	600	53,914
Other Shutdown Costs⁽¹⁾		
Recognized in the year	2,616	893
Provision for discontinuance of operations		
— current ⁽²⁾	9,034	588
— long-term	1,750	25,132*
	13,400	26,613
Total before taxes recovery	14,000	80,527
Less estimated taxes recovery	6,423	28,967
Extraordinary items net of taxes	\$ 7,577	\$ 51,560

(1) Includes estimated amounts for contractual obligations, demolition, reclamation and employment related costs.

(2) Included on Consolidated Statement of Financial Position in "Accounts payable and accrued."

*At December 31, 1985 included in "Accounts payable and accrued"

4 Components of Consolidated Income Taxes

	1985 (in thousands)	1984 (in thousands)
Provision (recovery) based on combined basic Canadian federal and provincial income tax rates (1985 — 51%, 1984 — 51%)	\$ 54,206	\$ 23,781
Non-taxed equity income	(1,761)	(2,073)
Mining incentives	(14,459)	(15,852)
Inventory allowance	(9,521)	(8,609)
Capital gains	(2,746)	—
Other	(4,659)	1,102
Income taxes	\$ 21,060	\$ (1,651)

5 Inventories

	1985 (in thousands)	1984 (in thousands)
Raw materials and supplies	\$ 348,366	\$ 354,698
Finished and semi-finished products	389,679	394,070
	\$ 738,045	748,768

6 Fixed Assets

	1985 (in thousands)	1984 (in thousands)
Raw material plants and properties, at cost*	\$ 266,988	\$ 267,343
Manufacturing plants and properties, at cost*	2,684,973	2,586,635
	2,951,961	2,853,978
Manufacturing plants and properties under capital lease (Note 9(c))	50,000	50,000
Less deferred gain (Note 9(c))	9,437	10,252
	40,563	39,748
	2,992,524	2,893,726
Less accumulated depreciation	1,452,826	1,362,213
	1,539,698	1,531,513
Provision for write-down (Note 3)	47,163	47,163
	\$ 1,492,535	\$ 1,484,350

*Net of investment tax credits

7 Long-term Investments and Related Commitments

(a) Changes affecting investments in 1985 include the following:

- (i) During 1985 the Corporation entered into an agreement with Armco Canada Ltd. to form an unincorporated joint venture, Moly-Cop Canada, in which the Corporation has a 50% interest.
- (ii) Effective May 31, 1985 the Corporation sold at net book value 50% of its interest in Stow International B.V. (formerly Stelco Nederland B.V.). Subsequent to this transaction, the Corporation's interest in the consolidated results of this company is being accounted for by the equity method.
- (iii) In 1985 the Corporation, in conjunction with the other participants in the Eveleth Mine partnership elected, prospectively, to make the initial recognition of the profit or loss from the sale of this mine's iron ore pellets at the partnership level. While this has no effect on the consolidated profit of the Corporation, it has resulted in the loss from this partnership in 1985 of \$8.5 million being included in "Equity income" whereas formerly it would have been included in "Cost of sales".
- (iv) Effective July 10, 1985, the Corporation acquired an additional half percent interest for \$84,000 in Canada Systems Group Limited. After such date the Corporation's share of income from this joint venture reflects the revised participation of 25.5%.
- (v) In December 1985, the Corporation disposed of its portfolio investment of 1.4 million common shares of Shaw Industries Ltd. at a price of \$11.75 per share. The gain on the sale has been reflected as a separate item of "Revenue" on the Consolidated Statement of Income.

(b) Long-term Intercompany Investments

	1985 (in thousands)	1984 (in thousands)
Corporate joint ventures and partnerships, at equity	\$ 53,030	\$ 55,260
Portfolio investments, at cost (quoted market value 1985 — \$1.9 million, 1984 — \$20.1 million)	1,953	10,219
	\$ 54,983	\$ 65,479

(c) Joint Ventures and Partnerships

Substantially, the joint ventures and partnerships are an integral part of steel operations and exist to provide raw materials, certain finishing operations and some administrative and sales services. Such transactions between the Corporation and the joint ventures and partnerships are accounted for in the Consolidated Statement of Income by:

- (i) Including such transactions with the joint ventures and partnerships in "Sales," "Cost of sales" or "Administrative" expense as appropriate.
- (ii) Disclosing the Corporation's share of the annual "Equity income from corporate joint ventures and partnerships" as a separate item of "Revenue".

The following is a summary of the Corporation's proportionate share of the financial position of the joint ventures and partnerships:

	Unincorporated Joint Ventures	Corporate Joint Ventures and Partnerships	1985 (in thousands) Total	1984 (in thousands) Total
Assets	\$ 60,976	\$ 195,601	\$ 256,577	\$ 255,984
Liabilities	9,558	142,571	152,129	146,087
Equity	\$ 51,418	\$ 53,030	\$ 104,448	\$ 109,897

Included in the liabilities of the corporate joint ventures and partnerships is \$95.1 million of long-term debt against which certain assets relating to those entities have been pledged.

(d) Commitments

The Corporation, as a participant in certain of the corporate joint ventures and partnerships, is entitled to receive its proportionate share of coal and iron ore produced and is committed to pay its share of their costs, including minimum charges for principal and interest to cover the servicing of their long-term debt. The Corporation's share of such minimum charges averages US \$9 million annually to 1996.

8 Sale of Tax Rights

During 1984 the Corporation sold rights to claim tax deductions related to \$6.0 million of qualified research and development expenditures incurred in the year 1985. As a result \$2.8 million from this sale has been reflected in deferred income taxes on the Consolidated Statement of Financial Position.

At December 31, 1985 the Corporation's qualified expenditures had eliminated the liability under the Income Tax Act for the special refundable Part VIII tax related to the above:

9 Commitments

(a) Capital Programs

The estimated cost to complete capital programs including the Hilton Works modernization program is \$355 million which will be spent over a period of three years and includes an estimated amount of \$35 million to cover inflation in construction costs and other contingencies.

(b) Operating Leases

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year at December 31, 1985 are:

	(in thousands)
1986	\$ 7,232
1987	6,014
1988	5,673
1989	5,473
1990	5,426
Subsequent to 1990	28,532
	\$ 58,350

(c) Capital Lease

In 1984 the Corporation sold at their fair market value of \$50 million certain assets associated with the slab caster located at Lake Erie Works. A \$10.3 million gain arising from this sale is being amortized over 15 years commencing in 1985 (see Note 6). Effective January 1, 1985 these assets were leased back to the Corporation for a period of 15 years with an option to reacquire the assets at January 1, 1995 for \$25 million.

Future minimum rental payments required under the capital lease at December 31, 1985 are:

	(in thousands)
1986	\$ 6,667
1987	6,667
1988	6,667
1989	6,667
1990	6,667
Subsequent to 1990	60,010
	93,345
Less imputed interest at 10.37%	44,866
Present value of minimum lease payments included in long-term debt (Note 11)	\$ 48,479

10 Guarantee

In order to assist an unaffiliated corporation with its financial restructuring, the Corporation has entered into an agreement to pay the unaffiliated corporation's prime banker up to \$15 million in the event of a default under the restructuring. In return for support in this restructuring of the unaffiliated corporation, the Corporation has negotiated a steel supply contract, has been granted various forms of security and in the event that the guarantee is enforced has a variety of remedies.

11 Long-term Debt

	1985 (in thousands)	1984 (in thousands)
5 ⁷ / ₈ % sinking fund debentures due May 1, 1990	\$ 28,330	\$ 30,014
9 ¹ / ₄ % sinking fund debentures due November 1, 1990	43,768	45,930
10 ⁷ / ₈ % sinking fund debentures due September 15, 1994	47,898	51,756
9 ³ / ₄ % sinking fund debentures due April 1, 1995	75,906	80,051
10 ¹ / ₄ % sinking fund debentures due April 30, 1996	80,714	84,491
10% notes due October 15, 1987 (1985 — US \$5 million, 1984 — US \$7 million)*	6,540	9,276
10 ³ / ₄ % sinking fund notes due November 20, 1995 (1985 — US \$83 million, 1984 — US \$92 million)*	116,481	121,146
13 ¹ / ₂ % sinking fund debentures due October 1, 2000	100,010	107,710
	499,647	530,374
Capital lease (expiring January 1, 2000) (Note 9(c))	48,479	50,000
Notes payable (see below)	48,930	—
	597,056	580,374
Less amount due within one year, net of prepayments	24,900	25,174
	\$ 572,156	\$ 555,200

*To comply with the recommendations of the Canadian Institute of Chartered Accountants, long-term debt payable in United States funds has been translated at the December 31 rates of exchange. This translated amount is not necessarily indicative of the amount which will be repaid when the obligations are retired.

On May 13, 1985 the Corporation entered into agreements which provide credit facilities in the aggregate capital amount of \$320 million bearing a weighted average interest rate of 10.4% per annum. Principal repayments will commence five years after completion of the slab caster facilities at Hilton Works (scheduled for the latter part of 1987). Repayments are to be completed by the earlier of 15 years from the caster completion date or April 30, 2003. At December 31, 1985 notes payable issued under the terms of these credit agreements were outstanding in the amount of \$48.9 million.

After allowing for prepayments and excluding capital leases, annual sinking fund and other repayments of debt over the next five years amount to \$23.2 million in 1986, \$34.4 million in 1987, \$32.1 million in 1988, \$32.1 million in 1989 and \$89.8 million in 1990.

12 Capital Stock and Dividends

(a) Authorized Shares

Under the Canada Business Corporations Act the Corporation is authorized to issue in series unlimited numbers of Preferred Shares and Common Shares without nominal or par value.

(b) Preferred Shares

	Number of Shares	1985 Stated Capital (in thousands)	Number of Shares	1984 Stated Capital (in thousands)
Outstanding — Series A	8,000,000	\$ 200,000	8,000,000	\$ 200,000
— Series B	1,676,900	41,923	1,738,250	43,456
— Convertible Series C	5,934,479	148,362	5,934,554	148,364
— Series D	4,175,491	104,387	4,213,300	105,332
— Series E	3,400,000	85,000	3,400,000	85,000
	23,186,870	\$ 579,672	23,286,104	\$ 582,152

Series A

These shares are entitled to a cumulative floating rate dividend, calculated and payable on a quarterly basis. The rate equals the sum of $1\frac{1}{4}\%$ and one-half the median Canadian bank prime rate charged by certain Canadian chartered banks.

The shares are redeemable on or after May 1, 1980 at \$25.75 per share, reducing by \$0.1875 annually on May 1, to \$25.00 per share.

The shares are retractable at \$25.00 per share at the holder's option on May 1 in each of the years 1987, 1992 and 1997.

Series B

These shares are entitled to a fixed cumulative dividend at the rate of \$1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable on or after November 1, 1984 at \$26.25 per share, reducing by \$0.25 annually on November 1, to \$25.00 per share.

On November 1 each year the Corporation is required to purchase at \$25.00 per share 61,350 Series B Preferred Shares, if tendered.

On November 1, 1985, 61,350 shares with a stated capital of \$1,533,750 were tendered and purchased for a total consideration of \$1,533,750 and were cancelled.

Convertible Series C

These shares are convertible into Series A Convertible Common Shares of the Corporation at any time on or before April 30, 1990, at a conversion price of \$33.75 per share, subject to adjustment in certain events. The 5,934,479 shares with a stated capital of \$148,362 outstanding at December 31, 1985 were convertible at the option of the holders into 4,395,910 Series A Convertible Common Shares.

The shares are entitled to a fixed cumulative dividend at the rate of \$1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable on or after May 1, 1985 at \$26.25 per share, reducing by \$0.25 annually on May 1, to \$25.00 per share.

Commencing July 1, 1990, the Corporation is required to make all reasonable efforts to purchase during each calendar quarter at a price not exceeding \$25.00 per share plus unpaid dividends and costs of purchase, 1% of the number of these shares outstanding on April 30, 1990. The resulting annual obligation expires December 31 in each year.

During 1985, 75 shares with a stated capital of \$1,875 were converted into 55 Series A Convertible Common Shares.

Series D

These shares are entitled to a fixed cumulative dividend at the rate of \$2.50 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after November 1, 1985 at \$26.00 per share, reducing by \$0.20 annually on November 1, to \$25.00 per share.

The shares are retractable at the option of the holder on November 1, 1990 at a price of \$25.00 per share.

On November 1, 1985, 37,809 shares with a stated capital of \$945,225 were retracted and purchased for a total consideration of \$945,225 and were cancelled.

The Corporation may elect in 1990 to create a further series of Preferred Shares ("1990 Series") into which the Preferred Shares Series D would be convertible on a share-for-share basis on and after the retraction date and having the same attributes in all material respects as the Preferred Shares Series D except that the dividend rate may be increased or decreased effective November 1, 1990 and the redemption price may be increased and a further non-call period may be provided.

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding \$25.00 per share plus costs of purchase:

- (i) from January 1, 1986 to December 31, 1990, 31,316 Preferred Shares Series D; and
- (ii) commencing January 1, 1991, 1.25% of the number of Preferred Shares Series D outstanding at close of business on November 1, 1990.

This purchase obligation is cumulative only within each calendar year, and would attach equally to shares of the 1990 Series.

During 1985, no shares were purchased other than the retracted shares outlined above.

Series E

These shares are entitled to a fixed cumulative dividend at the rate of \$3.625 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after August 1, 1988 at \$26.20 per share, reducing by \$0.30 annually on August 1, to \$25.00 per share.

The shares are retractable at the option of the holder on August 1, 1988 at a price of \$25.00 per share.

The Corporation may elect on or before June 17, 1988 to create a further series of Preferred Shares into which the Preferred Shares Series E would be convertible on a share-for-share basis during a conversion period commencing no later than the retraction date and ending no earlier than six months after the retraction date (subject to prior redemption).

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding \$25.00 per share plus costs of purchase:

- (i) from October 1, 1982 to September 30, 1988, 17,000 Preferred Shares Series E; and
- (ii) commencing October 1, 1988, 1% of the number of Preferred Shares Series E outstanding at the close of business on September 30, 1988.

This purchase obligation is cumulative only within each calendar year.

During 1985, no shares were purchased.

(c) Common Shares and Warrants

	1985	1984
Stated Capital (in thousands)	\$ 397,614	\$ 390,990
Outstanding — Series A Convertible Shares	33,757,569	33,151,217
— Series B Convertible Shares	270,177	563,405
	34,027,746	33,714,622
Outstanding — Common Share Purchase Warrants	2,699,900	2,699,900

Series A and Series B

The Convertible Common Shares of each series are voting, convertible into one another on a share-for-share basis and rank equally in all respects except that dividends on the Series B Convertible Common Shares may be payable by way of a stock dividend in Series B Convertible Common Shares in accordance with the conditions attaching to such shares and dividends on the Series A Convertible Common Shares are payable in cash.

As a result of amendments to the Income Tax Act announced during 1985, stock dividends both declared and paid after May 23, 1985 are taxable dividends.

Other Convertible Common Shares issued during the year were:

- ☐ 46,108 Series A Shares for \$1,083,538 under the Employee Stock Investment Plan (see Note 13).
- ☐ 245,531 Series A Shares for \$5,092,180 under the Stelco Share Participation Plan (see Note 14).
- ☐ 21,788 Series B Shares in payment of stock dividends. Under terms of the issue, certain fractional Series B Shares with a stated capital of \$7,352 and equivalent to 358 whole shares were purchased and cancelled.

Warrants

During 1985, no Common Share Purchase Warrants were exercised. At December 31, 1985, 2,699,900 Warrants were outstanding with a stated capital of \$14,849,450. One whole Warrant entitles the holder to purchase one Series A Share at \$30.75 until October 15, 1986.

(d) Dividends

The following dividends were declared.

	1985 (in thousands)	1984 (in thousands)
Preferred Shares		
Series A (per share 1985 — \$1.68699, 1984 — \$1.79882)	\$ 13,496	\$ 14,391
Series B (per share 1985 — \$1.94, 1984 — \$1.94)	3,342	3,460
Convertible Series C (per share 1985 — \$1.94, 1984 — \$1.94)	11,513	11,514
Series D (per share 1985 — \$2.50, 1984 — \$2.50)	10,510	10,533
Series E (per share 1985 — \$3.625, 1984 — \$3.625)	12,325	12,325
	51,186	52,223
Common Shares		
(per share 1985 — \$1.00, 1984 — \$1.00)		
Series A	33,517	32,989
Series B (stock dividend)	380	598
	33,897	33,587
	\$ 85,083	\$ 85,810

13 Employee Stock Investment Plan

Under the Corporation's Employee Stock Investment Plan established in 1983, the Corporation is authorized to advance monies to a trustee to be loaned interest free to certain salaried employees and applied in payment of the subscription price of Series A Convertible Common Shares to be purchased from the Corporation by the trustee on behalf of such employees. The loans are secured by a pledge of the shares to the trustee and are normally repayable within five years of their inception. The Plan provides, on the occurrence of any of certain specified events, for special payments to a participant to discharge such participant's outstanding loans.

In December 1985, \$1,083,538 was advanced under the Plan for the purchase of an aggregate of 46,108 Series A Convertible Common Shares at a price of \$23.50 per share, the closing price on The Toronto Stock Exchange on December 6, 1985. At December 31, 1985 the amount of advances outstanding to the trustee under the terms of the plan was \$2,869,864.

14 Stelco Share Participation Plan for Salaried Employees

Effective January 1, 1984 the Corporation established a Share Participation Plan for all eligible non-bargaining unit employees. The Plan is funded by the Corporation through quarterly contributions to a trustee. Accumulated monthly entitlements are invested quarterly by the trustee in Series A Convertible Common Shares purchased from the Corporation at the closing sale price on the Toronto Stock Exchange on the third last working day of each calendar quarter.

This plan has been deemed an Employee Profit Sharing Plan by the federal and provincial tax authorities under the respective income tax acts and is reflected on the Consolidated Statement of Income in "Administrative and selling".

During 1985, 245,531 Series A Convertible Common Shares were issued under this Plan for total proceeds of \$5,092,180. Details of the shares issued each quarter are as follows:

	Number	Price	Amount
March	62,941	\$ 20.50	\$1,290,291
June	64,244	19.75	1,268,819
September	63,307	20.125	1,274,053
December	55,039	22.875	1,259,017
	245,531		\$5,092,180

15 Retirement Plans

Pension costs charged against income under the Corporation's pension plans include payments made to trust funds for current and past service requirements as determined by an independent actuary. Unfunded past service costs in respect of pensions ultimately payable to the present employees are estimated to be \$153 million at December 31, 1985. This amount is being funded over periods not exceeding fifteen years.

16 Related Party Transactions

Related party transactions occurring during 1985 and 1984 result from transactions with various corporate joint ventures and partnerships recorded as long-term intercorporate investments (see Note 7). These corporate joint ventures and partnerships accounted for on an equity basis exist to provide certain raw materials, finishing operations and administrative and sales services. Transactions during the year and balances outstanding at December 31 are as follows:

	1985 (in thousands)	1984 (in thousands)
(a) During the year		
Sales	\$ 3,879	\$ —
Materials and services purchased	123,532	116,047
Capital advances (repayments)	11,385	(1,156)
Dividends and interest received	7,937	2,752
Advances (repayments) on demand notes	300	(100)
(b) At December 31		
Capital advances	\$ 64,610	\$ 53,225
Accounts receivable	2,195	59
Demand notes receivable	7,400	7,100

17 Comparative Figures

Certain 1984 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1985. Investment tax credits of \$7.5 million in 1984 have been included in "Other-net" on the Consolidated Statement of Cash flow.

Auditors' Report

THORNE RIDDELL

Chartered Accountants

To The Shareholders
Stelco Inc.

We have examined the consolidated statement of financial position of Stelco Inc. at December 31, 1985 and the consolidated statements of income and retained earnings and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation at December 31, 1985 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Toronto, Canada
February 7, 1986

Investor Information

Shares

The Series A Convertible Common Shares and the Series B Convertible Common Shares of the Corporation and Common Share Purchase Warrants are listed on The Toronto Stock Exchange, The Montreal Exchange, and the Vancouver Stock Exchange.

The Preferred Shares Series C, Series D and Series E are listed on The Toronto Stock Exchange and The Montreal Exchange.

The rights and privileges of each class of shares are set out in the financial statement section of this Annual Report.

At December 31, 1985, there were 22,373 holders of common shares. Approximately 97% of these shareholders had Canadian addresses.

The reported high and low sales prices of Stelco Inc. common shares in 1985 and 1984 are shown in the following table:

Quarter	1985		1984	
	High	Low	High	Low
First	24.25	20.00	33.37	26.12
Second	20.87	18.75	27.00	22.25
Third	23.62	19.12	24.37	19.62
Fourth	24.12	19.62	23.62	19.25

The valuation day value of the Corporation's common shares was \$26.75.

Dividends

Dividends on all classes of shares are payable quarterly on February 1, May 1, August 1, and November 1 of each year.

Dividends have been paid on common shares since 1916. In 1983, 1984, 1985 and to date in 1986, common share dividends have been paid at a rate of 25¢ per share per quarter.

Transfer Agent

The Preferred Shares series C, D and E, and the Common Shares Series A and B are transferable through the Corporation's Transfer Agent, The National Trust Company, at their offices in Toronto, Montreal, Hamilton, Winnipeg, Regina, Edmonton and Vancouver, and at its Agent, The Royal Trust Company in Halifax.

Investor Inquiries

Questions and comments regarding Stelco Inc. or any information appearing in the Annual Report, Quarterly Reports or any other corporate publication may be directed to the Vice-President, Secretary and General Counsel.

Directors and Officers

Directors

- *J.D. Allan, Toronto**
Chairman, President and Chief Executive Officer of the Corporation
- *‡Alex E. Barron, Toronto**
Vice-Chairman, Canadian General Investments Limited
- *A. Jean de Grandpré, Montreal**
Chairman and Chief Executive Officer, Bell Canada Enterprises Inc.
- *‡Thomas M. Galt, Toronto**
Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada
- *J. Peter Gordon, Toronto**
Corporate Director
- J. Howard Macdonald, Calgary**
Chairman and Chief Executive Officer, Dome Petroleum Limited
- *A.J. MacIntosh, Toronto**
Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors
- †‡William F. McLean, Toronto**
Corporate Director
- J. Dean Muncaster, Toronto**
Corporate Director
- J. Fraser Mustard, Toronto**
President, The Canadian Institute for Advanced Research
- †Lucien G. Rolland, Montreal**
Chairman and Chief Executive Officer, Rolland inc.
- †Kenneth A. White, Oakville**
Corporate Director
- Marshall M. Williams, Calgary**
Chairman and Chief Executive Officer, TransAlta Utilities Corporation
- L.R. Wilson, Toronto**
President and Chief Executive Officer, Redpath Industries Limited
- †*William H. Young, Hamilton**
Chairman, The Hamilton Group Limited
- *Member — Executive Committee*
- †Member — Audit Committee*
- ‡Member — Compensation and Manpower Resources Committee*

Executive Officers

- J.D. Allan**
Chairman, President and Chief Executive Officer
- G.W.R. Bowlby**
Executive Vice President
- R.E. Heneault**
Executive Vice President
- J.E. Hood**
Executive Vice President
- G. Binnie**
Vice President and Comptroller
- P.D. Matthews**
Vice President and Treasurer
- J.W. Younger**
Vice President, Secretary and General Counsel

Vice Presidents and Other Officers

- W.C. Ashcroft**
Assistant Treasurer
- W.A. Darby**
Assistant Comptroller — Corporate Accounting
- V.P. Harris**
Vice President — Industrial Relations
- W.A. Hopkins**
Vice President and General Manager — Stelco Pipe and Tube Company
- F.A. Hoyle**
Vice President — Manufacturing Services
- L.M. Killaly**
Assistant Secretary
- L.C. McLean**
Vice President — Quality and Technology
- T.R. Meadowcroft**
Vice President — Manufacturing
- D.B. Morrow**
Vice President and General Manager — Stelco Fastener and Forging Company
- A.G. Northcott**
Assistant Comptroller — Works Accounting
- P.J. Prediger**
Vice President and General Manager — Stelco Wire Products Company
- F.H. Telmer**
Vice President — Corporate Affairs and Strategic Planning
- D.A. Woodward**
Vice President — Sales

Corporate Directory

Head Office

IBM Tower,
Toronto-Dominion Centre
Toronto, Ontario, M5K 1J4

General Offices

Hamilton, Ontario
Montreal, Quebec — Eastern Region
Edmonton, Alberta — Western Region

Sales Offices

Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Saint John, New Brunswick
St. John's, Newfoundland
Sudbury, Ontario
Windsor, Ontario
Winnipeg, Manitoba

Plants

Hamilton, Ontario

Hilton Works
Canada Works
Canadian Drawn Works
Frost Works
Parkdale Works

Beachville, Ontario

Chemical Lime Works

Brantford, Ontario

Brantford Works

Burlington, Ontario

Burlington Works

Gananoque, Ontario

Gananoque Works

Nanticoke, Ontario

Lake Erie Works

Red Lake, Ontario

The Griffith Mine

Toronto, Ontario

Swansea Works

Welland, Ontario

Page-Hersey Works
Welland Tube Works

Contrecoeur, Quebec

McMaster Works

Lachine, Quebec

Dominion Works

Camrose, Alberta

Camrose Works

Edmonton, Alberta

Stelco Edmonton, Steel Works
Stelco Edmonton, Finishing Works

Research Centre

Burlington, Ontario

Subsidiary Companies, wholly owned*

Clôture Frost Inc. — Frost Fence Inc., Montreal, Que.
Stelco Holding Company, Cleveland, Ohio
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky. (Chisolm Mine)
Kanawha Coal Company, Ashford, W. Va. (Madison Mine)
Ontario Eveleth Company, Minneapolis, Minn.
Ontario Hibbing Company, Minneapolis, Minn.
Stelco Erie Corporation, Minneapolis, Minn.
Stelco U.S.A. Inc., Troy, Michigan

Unincorporated Joint Ventures*

	% Owned
Moly-Cop Canada, Alta. & B.C.	50.0
Wabush Mines, Nfld. & Que.	25.6
Hibbing Taconite Company, Minn.	6.7

Corporate Joint Ventures and Partnerships

	% Owned
Iron Ore	
Eveleth Expansion Company, Minn.	23.5
Tilden Iron Ore Partnership, Mich.	15.6
Erie Mining Company, Minn.	10.0
Ontario Iron Company, Minn.	10.0
Coal	
Mathies Coal Company, Pa.	13.3
Beckley Coal Mining Company, W. Va.	12.5
Olga Coal Company, W. Va.	10.0
Other	
Baycoat Limited, Ont.	50.0
Fers et Métaux Recyclés Ltée, Que.	50.0
Stow International B.V., The Netherlands	50.0
Stelco S.A., Switzerland	50.0
Stelco de Argentina, S.A.C.I. y de R., Argentina	50.0
Stelco de Venezuela, S.R.L., Venezuela	50.0
Torcad Limited, Ont.	50.0
Arnaud Railway Company, Que.	25.6
Wabush Lake Railway Company, Limited, Nfld.	25.6
Canada Systems Group Limited, Ont.	25.5
Knoll Lake Minerals Limited, Nfld.	14.9
Northern Land Company Limited, Nfld.	12.8
Twin Falls Power Corporation, Limited, Nfld.	4.4

Registrar and Transfer Agent

National Trust Company, Toronto, Montreal, Hamilton, Winnipeg, Regina, Edmonton and Vancouver; and its agent Royal Trust Company in Halifax.

*Excludes inactive Subsidiary Companies and inactive Unincorporated Joint Ventures.

Ten Year Statistical Summary

Dollars in millions except as indicated*

Operations (thousands of net tons)

	1985	1984	1983	1982
Raw steel produced	4,991	5,145	4,778	4,592
Total raw steel processed (including purchases)	5,109	5,161	4,657	4,667
Steel shipments	4,023	4,004	3,598	3,575

Income and Related Data

Sales	\$ 2,434.7	2,401.2	2,033.2	2,020.3
Administrative and selling	\$ 129.5	128.7	121.6	129.2
Depreciation	\$ 104.0	111.5	103.8	101.0
Interest on long-term debt	\$ 64.0	58.9	61.0	63.6
Income taxes	\$ 21.1	(1.7)	(50.4)	(64.8)
Net income (loss)	\$ 77.6	(3.3)	(14.2)	(40.8)
Per common share ⁽²⁾	*\$.77	(1.69)	(2.32)	(3.69)
— fully diluted	*\$ N/A	N/A	N/A	N/A
Return on sales	% 3.5**	2.0**	(0.7)	(2.0)
Return on average investment ⁽³⁾	% 4.7**	3.2**	0.7	(0.4)
Return on average common shareholders' equity ⁽²⁾	% 3.4**	(0.4)**	(7.0)	(9.3)
Dividends declared — preferred	\$ 51.2	52.2	52.0	51.1
— common	\$ 33.9	33.6	28.9	24.8
Per common share	*\$ 1.00	1.00	1.00	1.00
Earnings reinvested in (withdrawn from) the business	\$ (7.5)	(89.1)	(95.2)	(116.7)

Capital Expenditures

	\$ 136.3	32.4	44.9	163.2
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Financial Position, year end

Working capital	\$ 848.4	853.8	692.3	649.2
Fixed assets — net	\$ 1,492.5	1,484.4	1,625.0	1,687.5
Long-term debt	\$ 572.2	555.2	509.9	535.0
Preferred shareholders' equity	\$ 579.7	582.2	583.7	585.5
Common shareholders' equity	\$ 980.6	981.5	981.0	925.5
Per common share	*\$ 28.82	29.11	32.35	37.25

Employment

Average number of employees	18,773	20,612	19,519	22,104
Total employment costs	\$ 828.7	870.9	782.6	799.7
Employees' average weekly earnings ⁽⁴⁾	*\$ 694.60	663.02	627.04	574.71

Number of Common Shareholders year end

	22,373	24,416	27,072	29,551
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(1) 1981 operations were interrupted by strikes, 125 days at Hilton Works and for various periods at other locations.

(2) After preferred dividends in 1985 to 1977 inclusive. (See Note 1 on page 21 for explanation of computation of net income (loss) per common share.)

(3) After adding back interest on long-term debt (net of tax) to net income (loss).

(4) Excludes the cost of supplementary employment benefits.

** Calculated before deducting extraordinary items of \$7.6 million (\$.23 per share) in 1985 — \$51.6 million (\$1.57 per share) in 1984.

1981 ⁽¹⁾	1980	1979	1978	1977	1976
4,454	6,278	5,862	5,533	5,640	5,724
4,996	6,109	6,306	6,199	5,490	5,669
3,804	4,529	4,553	4,466	3,995	4,028
2,173.8	2,228.6	2,091.2	1,775.7	1,444.1	1,359.8
120.3	111.0	98.7	88.5	81.8	75.2
93.6	70.3	60.5	56.7	55.1	54.9
65.4	55.3	52.5	52.5	51.4	46.8
17.8	39.5	62.0	39.3	1.6	17.0
82.8	132.2	156.9	111.9	81.9	77.3
1.45	4.05	5.74	4.07	3.02	3.13
N/A	3.88	N/A	N/A	N/A	N/A
3.8	5.9	7.5	6.3	5.7	5.7
4.6	6.9	9.1	7.3	6.3	6.7
3.4	9.7	14.7	11.3	8.8	9.5
47.7	34.0	15.4	11.5	8.2	—
49.5	49.4	49.4	43.2	42.0	42.0
2.00	2.00	2.00	1.75	1.70	1.70
(14.4)	48.8	92.0	57.2	31.7	35.3
210.2	191.7	204.0	145.3	144.6	172.5
791.4	930.7	617.1	593.6	603.3	457.5
1,634.9	1,517.3	1,397.4	1,265.7	1,186.1	1,102.0
558.1	581.0	490.4	496.9	501.3	504.4
504.2	508.0	233.1	200.0	200.0	—
1,042.5	1,054.7	1,009.6	917.7	860.3	829.3
42.07	42.66	40.85	37.13	34.83	33.57
26,263	25,094	25,032	23,712	22,942	22,691
674.6	687.9	641.6	559.0	495.0	459.0
492.25	443.94	408.75	374.98	343.67	320.90
32,277	36,040	40,495	38,147	36,408	36,501

stelco

Quality people. Quality steel.